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ESTIMATED U.S. PETROLEUM BALANCE SUMMARY

Crude and product prices fell at an even steeper rate in February than in January, dominating events in the industry and possibly distorting delivery data. In most instances, it appears, however, that underlying demand trends continued to assert themselves. Light product deliveries posted a more-than-4% increase. For the second time in three months, residual fuel oil deliveries also rose, bringing the increase in total domestic deliveries to 5.0%.

Total U.S. crude oil production rose about ¼ of a percent, despite above-trend production last February, in good part because of higher output in the lower 48 states. Imports were about one million B/D above last February's level, depressed then because of price uncertainties, but some two hundred thousand barrels per day below seasonally-adjusted levels of the prior three months. Inventories fell about 26 million barrels in February, roughly in line with historical rates.

PRODUCTS SUPPLIED[1]

Gasoline

INCREASED LESS THAN 1% OVER FEBRUARY 1985 DELIVERIES.

Deliveries of gasoline rose only 51 thousand B/D (0.8%) in February compared with year-earlier levels, a low increase. Continued market turmoil may well have contributed to this decline from rates of increase prevailing over the past several months, possibly holding down the level of purchases by large users or holders of secondary storage. For the first two months of the year combined, deliveries are about 3.0% greater than last year, however, and even after adjustment for January 1985's below-trend level of deliveries, the resultant two-month increase of about 1.4% remains close to recent experience.

Prices at the pump continued to decline in February, falling 10-11 cents a gallon from average December levels. This drop is roughly in line with the estimated reduction in refiners' crude cost. The February decline in unleaded gasoline prices at the pump did not differ substantially from the drop in leaded gasoline prices. Over the past several months the price gap between leaded and unleaded gasolines at the wholesale level, however, has gradually narrowed. Spot prices for leaded gasolines, in fact, lately have been somewhat higher than for unleaded. These developments reflect the added costs incurred by refiners in producing leaded gasolines conforming with recent lead phasedown specifications.

Unleaded gasoline's share of the total gasoline market exceeded 69%, a seven percentage point gain since last February.

Distillates

DELIVERIES ROSE NEARLY 7% OVER YEAR-EARLIER LEVELS.

Distillate deliveries were 215 thousand B/D (6.5%) higher than last February, despite 9% warmer weather, a factor which should have depressed distillate deliveries by roughly 100 thousand B/D. Rail traffic was down slightly in February, but truck traffic is estimated to have experienced a minimal increase; these minor changes, overall, however, had little impact on distillate delivery levels. With uncertainty as to where new price equilibriums might be established in crude and product markets, the incentives of secondary and tertiary inventory holders are difficult to assess. Thus the substantial year-to-year increase in distillate deliveries in February remains largely unexplained. However, with distillate prices falling 25% or more at wholesale levels, distillates may have presented an attractive alternate fuel source to certain natural gas users at some marketing levels and locations.

Residual Fuel Oil

UP 9% COMPARED WITH LAST YEAR. For the second time during the past three months, residual fuel oil deliveries rose over prior-year levels. The nearly-9 percent, 120 thousand B/D increase is believed to be mainly the result of higher purchases by industrial users. The $7-$8 drop in spot and contract prices since the beginning of the year is likely to have encouraged further switching to resid in that sector in February. Though falling resid prices had helped to further soften natural gas prices to industrial users as gas utilities strove to maintain sales to this sector, not all suppliers were able to adapt rapidly enough or make cuts of sufficient magnitude. In fact, some gas utilities reportedly had already reached existing limits of permissible price adjustments and had to reapply to regulatory authorities for further downward adjustments in order to regain a competitive posture. Overall, we believe, gas suppliers may have lost considerable sales volume to other fuels, especially residual fuel oil, in February. Meanwhile, generation at electric utilities was down slightly in February compared to a year ago, mainly because of warmer weather. Though residual fuel oil consumption at electric utilities fell as well, lower product prices may have encouraged some inventory replenishment.

Kerosene Jet Fuel

UP 24% IN FEBRUARY. Kerosene jet fuel deliveries continued strong year-to-year gains in February, registering a 23.5 percent increase (218 thousand B/D) over last February's level. Though about 50 thousand B/D of this increase is attributable to below-trend deliveries last year, the bulk of the increase appears to result from continued growth in aircraft miles. Aircraft miles flown were growing at a 6 to 8 percent year-to-year rate in late 1985, and renewed fare competition may well have pushed increases to even higher rates in February.

Other Oils

UP NEARLY 10% OVER LAST YEAR'S LEVEL. Deliveries of "other oils" rose 363 thousand B/D (9.6%) in February compared with year-earlier levels. Prices for liquefied petroleum gases and petrochemical products continued to fall in February, reflecting decreases in other petroleum product markets.

Propane deliveries increased almost 6% in 1985 over prior-year levels and butanes, partly as a result of higher demand related to the lead phasedown program, increased by about 7%. Ethane deliveries were down about 4% in December and 3% for last year as a whole, compared with corresponding year-earlier periods. Buoyed by a strong overall increase in December, however, deliveries of liquefied petroleum gases were up almost 3% in 1985. This upward trend, however, may not have continued in February, as price drops accelerated. It may, in fact, have become more advantageous for producers by late month to keep certain liquids in the natural gas stream for their heat value than to sell product at prevailing prices.

Deliveries of petrochemical feedstocks were about 60 thousand B/D, or 22%, higher in December than a year earlier, but, because of weak activity in the chemical industry earlier in the year, finished 1985 marginally lower than during the prior year. Price declines in petrochemicals during the past two months are likely to have been one of the factors that helped sustain the improvement in chemical industry activity that started late last year; reportedly, chemical industry sales were up some 5% in the fourth quarter of 1985 compared with year-earlier results. As a result, we estimate that February deliveries of petrochemicals were well in excess of last year, perhaps by as much as 75 thousand B/D.

(In millions of B/D)	FEBRUARY ESTIMATES			YEAR-TO-DATE ESTIMATES		
	1986	1985	% Change	1986	1985	% Change
—Total domestic products supplied	16.8	16.0	5.0	16.6	16.1	3.2
—Motor gasoline supplied	6.6	6.5	0.8	6.6	6.4	3.0
—Distillate fuel oil supplied	3.5	3.3	6.5	3.5	3.4	3.1
—Residual fuel oil supplied	1.5	1.3	8.9	1.4	1.4	(3.5)

SUPPLY[2/]

A 1,019 thousand B/D increase in imports contributed two-thirds of the more-than-1,500 thousand B/D increase in total supply, with increased domestic supply making up the remainder.

Production

ROSE ABOUT ¾%. Crude production in February is not believed to have been significantly affected by the fall in prices and consequent abandonment of wells which began to occur in the latter part of the month. For the month overall, crude production rose 66 thousand B/D (0.7%), divided about one-third/two-thirds between increases in Alaskan production and higher production than last year in the lower 48. Most of the increase in Alaskan production is the result of higher output at Kuparuk; production declined somewhat at Prudhoe Bay and offshore in southern Alaska. In the lower 48, states that are estimated to have experienced small year-to-year increases included the major producing states of Louisiana, Texas, and California.

Imports

27% HIGHER THAN LAST YEAR.

Petroleum imports rose 26.7 percent over last February's but were some 200 thousand B/D below the average for the prior three months; of the 1,019 thousand B/D increase, all but about 54 thousand B/D was crude oil. The increase is more an indication of how far below trend price uncertainties caused last February's imports to fall than it is of any increase this year. In fact, February's crude oil imports, at roughly 3 million barrels per day, were somewhat below the 1985 average. Gasoline imports, including blending components, were about equal to last February's roughly 450 thousand B/D. Though distillate imports, in part because of warmer weather and adequate domestic supplies, fell to little more than a third of January's high level, the estimated 130 thousand B/D of distillates imported in February was less than 20 thousand B/D below last year's. The relative strength of distillate prices in Europe, where many countries experienced a very cold February, also had made that area more attractive to suppliers worldwide than U.S. markets.

Exhibit I, which compares oil imports into the U.S. from leading countries for December and 1985 as a whole with year-earlier levels, shows that, by and large, the ranking of the top importers changed little year to year. However, when imports rise, as was the case in late 1985, they likely are obtained from sources that can readily make incremental material available. This is true, for example, for countries such as Saudi Arabia. The recent increase in imports from Saudi Arabia thus is not surprising. While, for 1985 as a whole, Saudi Arabia, as the exhibit indicates, was only ninth among suppliers of petroleum to the U.S., in December its volume had risen to closely match second-ranking Mexico with about 640 thousand B/D in crude and products. Saudi Arabia's decision to sell some crude on a "netback" basis related to product values served to enhance the attractiveness of Saudi crudes. Imports from Canada have also been on the increase. Canada ranked first in December, but Mexico again ranked first for the year as a whole.

OPEC's share of total imports into the U.S in 1985, at more than 36%, was slightly below 1984's close-to-38% share. For December alone, however, Saudi Arabia's year-to-year increase of more than 400 thousand B/D versus December 1984 levels raised OPEC's share by more than 7 percentage points to 42%.

Inventories

DECLINED A ROUGHLY-SEASONAL 26 MILLION BARRELS.

Total inventories fell 26 million barrels in February, roughly in line with the seasonal average. Crude stocks rose 7 million barrels in February; they also increased in two of the prior three months, recovering from the lower-than-typical levels that had prevailed in late summer and early fall.

Gasoline inventories rose 7 million barrels, about twice the average for this time of year, while distillate stocks fell a nearly-typical 23 million barrels.

Operations

UTILIZATION UP MORE THAN 4 PERCENTAGE POINTS.

Input to crude oil distillation units rose almost 750 thousand B/D over last February's levels, continuing the roughly 750 to 1,000 thousand B/D year-to-year increases experienced in December and January, respectively. While this February's operable capacity was only minimally above last year's, utilization rose more than 4 percentage points. Distillate output, though 140 thousand B/D higher than last year, dropped to about 2.6 million B/D from January's 3.0 million B/D, mainly because of warmer weather.

(In millions of B/D)	FEBRUARY ESTIMATES			YEAR-TO-DATE ESTIMATES		
	1986	1985	% Change	1986	1985	% Change
—Total supply	16.7	15.2	9.9	16.9	15.2	10.8
—Crude production[2]	8.9	8.9	0.7	8.9	8.8	2.0
—Crude oil imports[3,4]	3.0	2.0	47.6	3.2	2.3	39.9
—Product imports	1.8	1.8	3.0	1.9	1.7	8.5

1/ Total supply, i.e., production plus imports adjusted for net stock change is equal to total products supplied from primary storage. Total products supplied from primary storage less exports is equal to total domestic products supplied. Information contained in this report is derived from information published in the API Weekly Bulletin and is based on historical analysis of the industry. All data reflect the most current information available to the API and include all previously published revisions.

2/ Includes lease condensate.

3/ Beginning with January 1977, the U.S. Department of Energy began reporting crude oil imports as of the date of importation. Previously, this data, with the exception of Canadian crude imports, was reported as of the date it was received at the refinery. This change may affect both the level of crude oil imports and crude oil stocks. API estimates of these data may, therefore, differ slightly from those of the U.S. Department of Energy.

4/ API data do not include crude oil imported for the Strategic Petroleum Reserve (SPR) nor crude oil stocks held in the SPR (according to the U.S. Department of Energy, the SPR held approximately 495 million barrels as of February 28, 1986.

Exhibit I

LEADING SOURCES OF U.S. OIL IMPORTS

Source Department of Energy

ESTIMATED UNITED STATES PETROLEUM BALANCE

(Daily Average in Thousands of 42 Gallon Barrels)

Products Supplied/Supply From Primary Storage	FEBRUARY			YEAR-TO-DATE		
	1986[1]	1985[2]	% Change	1986[3R]	1985[2]	% Change
Products Supplied:						
Total motor gasoline	6,572	6,521	0.8	6,614	6,424	3.0
Finished leaded motor gasoline*	2,022	2,473	(18.2)	2,057	2,388	(13.9)
Finished unleaded motor gasoline*	4,550	4,048	12.4	4,557	4,036	12.9
Naphtha-jet	182	209	(12.9)	203	214	(5.1)
Kerosine-jet	1,144	926	23.5	1,126	960	17.3
Distillate fuel oil	3,514	3,299	6.5	3,490	3,385	3.1
Residual fuel oil	1,463	1,343	8.9	1,366	1,415	(3.5)
All other oils[4]	4,151	3,788	9.6	4,061	3,844	5.6
Reclassified[5]	- 253	- 110	130.0	- 288	- 179	60.9
Total domestic products supplied	16,773	15,976	5.0	16,572	16,063	3.2
Exports	882	857	2.9	861	823	4.6
Total products supplied	17,655	16,833	4.9	17,433	16,886	3.2
Supply:						
Domestic production:						
Crude oil[6]	8,934	8,868	0.7	8,942	8,768	2.0
Natural gas liquids	1,674	1,630	2.7	1,651	1,636	0.9
Other supply[7]	1,278	902	41.7	1,250	837	49.3
Total domestic supply	11,886	11,400	4.3	11,843	11,241	5.4
Imports:						
Crude oil, total	2,993[10/]	2,028[10/]	47.6	3,168[10/]	2,264[10/]	39.9
Canadian	496	438	13.2	458	387	18.3
Other	2,497	1,590	57.0	2,710	1,877	44.4
Products, total	1,849	1,795	3.0	1,879	1,732	8.5
Residual fuel oil	585	614	(4.7)	551	603	(8.6)
Other	1,264	1,181	7.0	1,328	1,129	17.6
Total imports	4,842	3,823	26.7	5,047	3,996	26.3
Total supply	16,728	15,223	9.9	16,890	15,237	10.8
Stock change, all oils	- 927	-1,610	XXXX	- 543	-1,649	XXXX
Refinery Operations						
Input to crude oil distillation units	12,216	11,484	6.4	12,437	11,538	7.8
Operable capacity	15,674	15,577	0.6	15,674	15,502	1.1
Refinery utilization (%)[8]	77.9%	73.7%	5.7	79.3%	74.4%	6.6
Crude oil runs	12,035	11,393	5.6	12,260	11,426	7.3

Stocks (millions bbls.)	1986		1985[2]	% Change from	
	Feb. 28[9]	Jan. 31[9]	Feb. 28	Previous Month	Year Ago
Crude oil[10/]	333.7	326.3	325.5	2.3	2.5
Unfinished oils	101.9	103.0	99.7	(1.1)	2.2
Total motor gasoline**	244.0	236.7r/	226.8	3.1	7.6
Finished leaded motor gasoline*	80.8	79.7r/	82.6	1.4	(2.2)
Finished unleaded motor gasoline*	125.2	118.3r/	107.4	5.8	16.6
Naphtha-jet	6.8	6.6	6.2	3.0	9.7
Kerosine-jet	36.3	35.2r/	35.6	3.1	2.0
Distillate fuel oil	113.8	137.1	121.5	(17.0)	(6.3)
Residual fuel oil	41.8	48.4r/	47.0	(13.6)	(11.1)
All other oils	112.8	123.8r/	145.0	(8.9)	(22.2)
Total all oils	991.1	1,017.1r/	1,007.3	(2.6)	(1.6)

1/ Based on API estimated data converted to a monthly basis.
2/ Source: U.S. Department of Energy.
3/ Source: API.
4/ Includes crude losses.
5/ Beginning with January 1981, U.S. Department of Energy began using a new data collection system which encompasses a method to ascertain the amount of product reclassified during the production phase. So that there will be no double counting of these volumes, they are subtracted from total domestic products supplied.
6/ Includes lease condensate.
7/ Includes Unaccounted-for crude oil, Refinery input of other hydrocarbons, and Processing gain.
8/ Represents "Input to crude oil distillation units" as a percent of "Operable capacity."
9/ Derived by interpolating API weekly stocks data.
10/ Data do not include oil imported for the Strategic Petroleum Reserve (SPR) nor crude oil stocks held in the SPR.
R/ Revised.
* Included in motor gasoline.
** Includes finished leaded, finished unleaded, and motor gasoline blending components stocks.